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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION
Item 42 ID#4468
RESOLUTION E-3921
6/16/05

R E S O L U T I O N

Resolution E-3921. SCE & SDG&E

By Advice Letters SCE 1847-E & SDG&E 1647-E/1494-G filed on
December 15 & 20, 2004, respectively.

SUMMARY

Distribution line and service extension allowances are granted to new applicants for electric and gas service to offset part of the cost for the installation. For residential service these allowances are a fixed amount and constitute a loan by the existing ratepayers, to be repaid over time by the new applicant through his distribution rate. The amount of the allowance is placed into ratebase at the time of the new customer service and thus raises distribution rates.

This Resolution approves, subject to modification, changes to new residential electric and gas line and service extension allowances, and monthly charges for unused capacity of line extensions for new non-residential customers of SCE and SDG&E per Rules 15 and 16. It also requires SCE and SDG&E to clarify and coordinate language in Rules 2, 15, 16 and associated rules, to explain how the monthly cost of ownership charge relates to the Cost of Service (COS) factor, which is used in the calculation of the allowances. SDG&E shall work with the Energy Division to revise the language of the Agreement for Extension and Construction of Overhead/Underground Electric and Gas Facilities.

BACKGROUND

SCE's and SDG&E's Rule 15, Distribution Line Extensions, Section C.3, states that the utilities may provide an allowance to new customers installing permanent Distribution Line Extension and/or Service Extensions. Section I.2 of Rule 15 requires that the utility will periodically review the factors used to determine its residential allowances. If the review results in a change of more than five

percent, the utility will submit a tariff revision to the California Public Utilities Commission (Commission) for review and approval.

SCE and SDG&E have completed periodic reviews for residential allowances and submitted subject Advice Letters (AL) that increase the allowances as follows:

SCE

	Current	Revised	Percentage change
Electric Allowance	\$ 1,247	\$ 2,179	75
Cost of Ownership	1.35 % per month	1.35 % per month	0

SDG&E

	Current	Revised	Percentage change
Electric Allowance	\$ 1.280	\$ 1,917	50
Cost of Ownership	1.21 % per month	0.68 % per month	-44
Gas Allowance	\$ 1,142	\$ 1,413	24
Cost of Ownership	1.55 % per month	0.55 % per month	-65

NOTICE

Notice of AL 1847-E and AL 1647-E/1494-G was made by publication in the Commission's Daily Calendar. SCE and SDG&E state that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

Advice Letters AL 1847-E and 1647-E/1494-G were protested.

SCE's Advice Letter AL 1847-E was timely protested by the Office of Ratepayer Advocates (ORA) and protested one day late by The Utility Reform Network (TURN).

SDG&E's Advice Letter AL 1647-E was timely protested by ORA and AL 1647-E/1494-G was protested late by TURN, but accepted under the "exception" clause in G.O. 96A.

SCE responded to the protests of ORA on January 10, 2005 and to the protest of TURN on January 12, 2005.

SDG&E responded to the protest of ORA on January 18, 2005 and to the protest of TURN on February 4, 2005.

On February 10, 2005 ORA supplemented their protest to SCE's and SDG&E's ALs in a response to the Energy Division and provided both utilities with copies of the supplement.

DISCUSSION

The overall issue raised by protestants in this Resolution is whether extending lines to add new customers has the effect of raising or reducing rates to existing customers, and which outcome is the best policy. For example, a line extension allowance given to new customers that is characterized as "too high" means that new customers are paying too little to become part of the system and that existing customers therefore are giving them a subsidy. Below the individual issues raised are each covered in a Protest- IOU response- Discussion format.

ORA protested SCE's AL 1847-E and SDG&E's AL 1647-E/1494-G on both procedural and policy grounds

ORA's protest included SCE's and SDG&E's ALs on policy grounds, because the requested allowance increases are contrary to the original justification of line extension allowances for new customers; namely, that they would provide additional revenues that would help reduce the revenue requirement from existing customers. The ALs are also contrary to that part of decisions D.97-12-098 and D.94-12-026, which states "the capital cost absorbed by utilities has resulted in larger rate base and created upward pressure on rates". ORA states that the request should be handled either by re-opening the line extension rulemaking R.92-03-050, or be treated as "exceptional case" per Rule 15, Section I.3.

ORA further objects to SCE's and SDG&E's delays in filing for an allowance change until the changes exceeded the five percent by wide margins (SCE by 75 %, SDG&E by 50% for electric and 24% for gas). The Commission has previously determined that line extension allowances were not "rates", and therefore the argument that the utility could not have changed the rate (allowance) during the rate freeze period is incorrect.

SCE and SDG&E Responses

SCE replies that this is not a rate increase, rather follows decision D.98-03-039 that permits recalculation of the allowance if the Commission issues a decision impacting the factors in the formula. Rule 15, Section I.2 requires that the utilities periodically review the factors for calculating the residential allowance and file for a change if greater than five percent. The “exceptional case” referred to in Rule 15, Section I.3 is reserved for individual line extension applications and has been applied so in the past “when the application or this rule appears impractical or unjust to either party or ratepayers, ...”. Ordering Paragraph 1 of D.97-12-098 was modified, in Subsection (3), to provide for the filing of an advice letter to implement the new mechanism for efficiently recalculating the line and service extension allowances.

SCE states that because of the rate freeze it first had to wait for the receipt of the Energy Division’s approval letter of the Procurement Related Obligation Account (PROACT) rate change on October 28, 2003, and then needed a 12-month data collection period, before it could submit an advice letter to change the allowances.

SCE and SDG&E point out that ORA’s protest is not the appropriate forum to propose an alternate methodology of allowance calculation.

Discussion

Decision D.98-03-039 clearly supports SCE’s and SDG&E’s position that residential line and service extension allowance changes may be filed by advice letters when a Commission decision affects factors in the formula for its calculation, whether or not the allowance is modified by five percent.

Earlier SCE ALs (1095-E-A, 1150-E, 1309-E, 1441-E) for modification of the allowance are a precedent of this procedure.

The fact that D.98-03-039 specifically allows AL filings to request an allowance change greater than five percent dispels ORA’s view that the “exceptional case” provision of Rule 15, Section I.3 applies for such an increase.

In its supplemental comments, ORA clarifies that it is not contesting that both, SCE’s and SDG&E’s AL proposals comply with the procedure that Rule 15 allows.

Therefore we agree with the utilities and ORA's later clarification that an AL is the correct vehicle to request residential line and service extension allowance changes per Rule 15, no matter how large.

We also agree with ORA that the allowance change was excluded from the electric rate freeze, because the freeze applied only to the bundled rate, but not to the components.

We agree with SCE and SDG&E that the policy issues are clearly outside the scope of this AL. However they have merit because of the significant contrary development of the Commission-intended reduction of subsidy by existing ratepayers. Even ORA modified its position in their supplemental comments and agrees with SDG&E that the policy issue "...should be addressed in a manner deemed appropriate by the Commission, not within the present filing..." We therefore refer the policy issue to the periodic general rate case (GRC) proceeding, or as an option, ORA or TURN can file a petition for rehearing of the relevant decisions.

ORA protested the methods and calculations in SCE's AL 1847-E

The basic relationship given in Rule 15 is that the Allowance (dollars per new extension) equals the Net Revenue (dollars per customer per year) over the Cost of Service factor.

In order to calculate the change in the allowances, Rule 15 requires SCE to calculate "that portion of the total rate revenue that support SCE's Distribution Line and Service Extension cost, and excludes such items as energy, transmission, public purpose program, revenue cycle (RCS) revenues, and other revenues that do not support Distribution Line and Service Extension costs". To do this SCE used the TOU-D-1 rate as a proxy for the average residential customer rate. ORA doubts that the TOU-D-1 rate is adequate. ORA proposes to use the contribution to margin from the new customer and a methodology of allocating the residential average rate in proportion of the total distribution revenue to residential revenue to determine the distribution component and then subtract the costs that do not support the hookup.

ORA further points out that the TOU-D-1 proxy rate should not include the baseline credit component of 0.625 cents per kWh.

ORA also claims that SCE used the incorrect Cost of Service (COS) factor from Rule 2. The correct factor is derived from Section H.2.c (1) for “applicants being served by SCE-financed added facilities shall pay a monthly charge of 1.46% of the cost associated with the added facilities”. The COS factor is then 0.1752, rather than the 0.162 used by SCE, corresponding to a monthly charge of 1.35% per Rule 2, Section H.2.c (3), which is for facilities financed by SCE without replacement.

SCE did not respond to these supplemental comments of ORA.

Discussion

SCE explained in response to a data request from the Energy Division that the TOU-D-1 distribution rate is the revenue-neutral averaged (summer/winter) residential distribution rate and excludes all other components after deducting the RCS. We therefore adopt this proxy average residential distribution rate, subject to other modifications in this resolution.

Rule 15 and the relevant decisions do not dictate an exact method of calculating the net residential distribution revenue or that the marginal cost of serving a new customers should be used to calculate the allowance. Therefore, a discussion of these issues should be deferred to a GRC or other proceeding.

We agree with ORA that the 0.625 cents per kWh baseline credit shown on schedule TOU-D-1 should also be deducted from the residential distribution rate used in the allowance calculation.

We also agree with ORA that the monthly charge of 1.46% for SCE-financed added facilities with replacement in perpetuity should be used to calculate the COS, because Rule 15 does not give a replacement period option and “in perpetuity” is the default value. This monthly charge should then be compounded for the COS instead of simply multiplied by 12.

Furthermore, Rules 2, 15, and any other rule referring to a COS, should be clarified as to the relationship with the monthly (ownership) charge for added facilities.

TURN protested the inclusion of the sub-transmission system and other costs in SCE’s AL 1847-E

TURN would exclude certain costs from SCE's calculation of the allowance because they do not support the cost of connecting new customers. These costs are for the sub-transmission system, generation-related administrative and general (A&G) cost, and costs associated with the interruptible programs (both industrial interruptible and residential air-conditioner cycling programs).

SCE Response

SCE agrees to exclude the generation-related A&G costs in the distribution component of the retail rates for the re-calculation of the allowance. SCE then notes that the surcharges associated with interruptible programs (both industrial interruptible programs and residential air conditioner cycling programs) as well as the surcharge associated with the CARE program have already been excluded in the filed allowance, as shown in response to a data request by TURN.

However SCE disagrees with TURN that the sub-transmission system cost should be excluded from the calculation of the line extension allowance, because the sub-transmission system cost is recovered through CPUC-jurisdictional distribution rates. The SCE 69 kV sub-transmission system is primarily a radial configuration, unlike the other utilities' 69 kV networked systems, and serves distribution substations and retail customer circuits.

Discussion

We appreciate SCE's agreement with TURN's request that the generation-related A&G costs will be excluded from a recalculation of the allowance, and the assurance that the surcharges associated with interruptible and CARE programs have already been excluded in the calculation of the filed allowance.

However, TURN's protest against inclusion of SCE's sub-transmission costs in the calculation of distribution rates and line extension allowances is a matter of CPUC policy that cannot be changed in the context of this resolution. Since the issue of whether sub-transmission costs should be considered distribution costs has far reaching effects on more than the rates and allowances we defer this issue to a GRC or other proceeding.

ORA Protested that SDG&E's AL 1647-E/1494-G is only a proposal and requires more backup information.

ORA states that SDG&E's AL should not be treated as a compliance filing but as a proposal because SDG&E does not have prior authorization to implement it.

Moreover ORA requests SDG&E to provide calculations supporting the proposed line extension allowance or annual revenue impacts, as required by General Order (G.O.) 96-A.

SDG&E Response

SDG&E responded that ORA makes an unnecessary distinction and that even an AL sometimes requires more analysis for approval than a straight forward compliance filing. Based on its recent COS decision (D.04-12-015) SDG&E states rates would not be affected until SDG&E's next general rate case proceeding.

In response to an Energy Division Data Request, SDG&E listed the source references of its input to the line extension allowance calculations. These references are the 2004 COS Settlement, 2004 Rate Design Window Settlement, work papers supporting rates effective 05-01-00, D.99-12-046, AL-1220-E, Sempra Utilities Revenue Requirement Model, and SDG&E's 1999-2003 Form 1 filing to the Federal Energy Regulatory Commission. A further response to another Energy Division Data Request also showed the gas allowance calculation methodology and references.

Discussion

The AL is the correct vehicle for this proposal, as elaborated under the first issue discussed above (the common protest to SCE's and SDG&E's ALs), and it does have prior approval, and it is subject to scrutiny as evidenced by this resolution.

SDG&E is correct that the proposed allowance increases would not have an impact until customer rates change after its next GRC. Therefore, the next GRC is the proper forum to discuss the method and source of input to the allowance calculation.

SDG&E should use data for customer counts and RCS costs from the alternate sources below, as inputs to the allowance calculation formula, because the data was also developed by SDG&E, may be more current, and by yielding lower allowances mitigates the adverse effect of adding new customers, as desired by Commission policy.

In responses to the Energy Division's data request, SDG&E provided the electric Total Distribution Revenues allocated to the Residential Class (\$ 327,589,000) from the 2004 COS Settlement, the Average Residential Customer count (1,067,055) from the 2004 Rate Design Window Settlement,

the Average RCS Credits (\$8.68) from Work papers supporting rates effective 05-01-00, and the COS factor (15.54%) also from the 2004 COS Settlement.

However staff found that SDG&E posted a different electric residential customer count figure in its Comparative Statistics 99-2003. For 2003 there were 1,149,445, resulting in \$285 revenue per residential customer. Subtracting the same low RCS cost above of \$8.68, and dividing by the COS factor of 15.54%, results in a lower electric allowance of \$1,778. The RCS cost used by SDG&E is only one-fifth of SCE's.

Similarly, in response to Energy Divisions data request for the gas allowance calculation, SDG&E referenced Average Usage Numbers (474 Therms total per unit) from a 1999 Conditional Demand Study performed by Regional Economic Research, based on results from SDG&E's MIRACLE XIII Residential Survey; Base Margin for Ratemaking (\$156,400,000) for rates effective January 1, 2005 per AL 1496-G; Marginal Cost Allocation (\$91,471,000), Transmission Marginal Cost Percentage (8.47%), and Average Year Deliveries (326,207,000 Therms) from the 1999 BCAP D. 00-04-060. The COS factor is taken from the 2004 COS Settlement at 14.72%.

However SDG&E's Comparative Statistics 99-2003 shows for 2003 a gas residential customer count of 770,305, resulting in \$203 revenue per residential customer. Dividing by the COS factor of 14.72% yields a lower total gas allowance of \$1379. This is further supported by the 2003 average residential gas use from SDG&E's Comparative Statistics of 424.5 Therms per unit, not the 474 Therms from the 1999 SDG&E survey. Other sources suggest that SDG&E survey data, for average water and space heating uses, are high at 185 and 235 Therms respectively.

Staff revised the SDG&E RCS value used above, based on other SDG&E data. In D.04-11-033 SCE estimates that 40-48% of the costs on which the master-meter discount to mobile home park (MHP) owners is based are for operation and maintenance and are estimated by the utilities on a basis that is not limited to mobile home parks. The remainder of the costs is therefore for RCS. Applying SDG&E's master-meter discounts for multi-unit customers, per Schedules DS (\$.13/unit/day) and GS (\$.25493/unit/day), respectively, at 60%, representing RCS costs, would yield even lower allowances (\$1650 for electric, \$747 for gas).

While the numbers used in above alternate calculations of the allowances may be challenged, they are newer than the 1999 BCAP numbers. They also show that absent any clear and consistent rule for the sources to the input into the allowance formula, the calculated allowances vary considerably, for a utility and between utilities.

TURN protested the inadequate documentation of the allowance recalculation and the redefinition of the COS in SDG&E's AL 1647-E/1494-G

TURN protested this AL on a number of grounds. The first one being that SDG&E did not provide adequate documentation to explain the line extension recalculation. The second ground is the redefinition of the COS factor “by the utility”, apart from Rule 2, Section 2.I and the lack of reference to the origin of the COS factor for gas, along with the unsupported allowance changes for gas appliances. Finally, the dramatic decrease of the ownership charge was protested because it would reduce the amount SDG&E would recover for the maintenance of under-utilized line extensions.

SDG&E Response

In its response SDG&E provided the Net Revenue and COS data it used in the calculation of the proposed allowances for gas and electricity. Further, it pointed out that its filing does propose to include the COS and ownership charge in Rule 15; the description in Rule 2, Section I.2 would be revised later. This would be consistent with earlier Commission approval of SoCalGas' Rule 20, Main Line Extensions, and would avoid customer confusion. SDG&E's Response justifies its proposed line extension allowance with the rulings in the recently concluded Line Extension OIR and with D.04-12-015 of SDG&E's Phase I COS application, which changed the electric rates, affecting net revenue, along with a lower Rate of Return, affecting the COS and the cost of ownership charge.

Discussion

In response to an Energy Division Data Request, SDG&E listed backup source references to its allowance calculations, shown above under the discussion of ORA's protest to SDG&E's AL.

However the annualized monthly ownership charges still does not correlate with the proposed COS factors.

We agree with SDG&E that the COS factor references in Rules 15 and 2 are confusing. However, we reject the deletion of the reference to Rule 2, Section I.2

in Rule 15, consistent with the rejection in SoCalGas' AL. The COS factor should only be enumerated in Rule 2 as ownership charges (for special facilities) and the relationship to the COS factor should be explained in Rule 15.

As shown above *[where]*, SDG&E's gas appliance allowances are subject to question, considering the discrepancy between the total average gas use SDG&E uses to support them, and the residential gas use shown in SDG&E's 99-2003 Comparative Statistics.

The 40% of the master-meter discount for multi-unit customers per SDG&E's Schedules DS and GS, representing SCE's estimated fraction of avoided operation and maintenance cost per unit, amount to \$19 and \$37 annually for electric and gas, respectively. Depending on the cost of the unused portion of a line extension, these fixed amounts would be a much smaller percentage than SDG&E's proposed Cost of Ownership charges. We therefore approve the percentages proposed by SDG&E, absent any contrary evidence.

Energy Division Request for Clarification of SDG&E's Form 106-44140, Agreement for Extension and Construction of Overhead/Underground Electric and Gas Facilities

SDG&E's AL contains a revision to its Agreement for Extension and Construction of Overhead/Underground Electric and Gas Facilities, in compliance with the commitment made in response to the Energy Division comments in Resolution 3364-G. SDG&E incorporated many of those editorial and clarifying changes in this filing. Because the remaining requested clarifications are not affecting the allowances or are editorial, the approval of SDG&E's AL shall not be subject to incorporating them. The Energy Division will continue to work with SDG&E to resolve the remaining issues with this Form. SDG&E (and all other utilities) are reminded that G.O.96, Section III. E, requires that all tariff sheets, including filed forms, to have each change marked with a vertical line in the margin.

COMMENTS

"Public Utilities Code section 311(g) (1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (2) provides that this 30-day

period may be reduced or waived upon the stipulation of all parties in the proceeding.

"The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today."

FINDINGS

1. D. 97-12-098 and D.98-02-039 directed SCE and SDG&E to file an Advice Letter to recalculate the allowance if the Commission issues a decision impacting the factors in the formula.
2. The AL is the correct vehicle for the allowance change, regardless of the amount. The "Exceptional Case" of Rule 15, Section I.3 does not apply.
3. The allowances are not rates and therefore were not included in the electric rate freeze. Gas allowances should have been requested before they increased 24%.
4. The issues of defining a sole source of data for, and a method of calculating the line extension allowances are outside the scope of an AL and should be taken up in a GRC or other proceeding.
5. There was no protest to SoCalGas' AL 3437-G, which proposed a reduction in the allowance for gas main and service extensions.
6. SCE's TOU-D-1 distribution rate is an acceptable proxy for the average residential rate, after exclusion of the RCS cost, baseline credit component and generation-related A&G costs.
7. Rule 15 and the relevant decisions do not dictate that the line extension allowance be calculated from marginal distribution costs. This is a policy issue and should be discussed in a GRC or other proceeding.
8. SCE used the incorrect monthly charge to calculate the COS factor because Rule 2, Section H.2.c(1) shows that the correct monthly charge for SCE-financed added facilities with replacement in perpetuity is 1.46% per month.
9. Rule 15 does not contain a replacement option. Line extensions and services are maintained and replaced by the utilities in perpetuity.
10. SCE's monthly charge as filed is not compounded monthly to obtain the COS factor.
11. The relationship between the COS factor in Rule 15 and the monthly charge in Rule 2 is not clearly explained in the rules.

12. SCE's sub-transmission costs cannot be excluded from distribution costs within the scope of this AL. The effect of such exclusion is far-reaching and needs to be discussed in a GRC or other proceeding.
13. An AL is the proper vehicle for requesting a change to the line extension allowances and has prior approval.
14. Residential rates will not be affected by changes to the allowances requested by SDG&E's AL until the next GRC.
15. The logical relationship between the COS factor and the monthly cost of ownership charge is not shown in SDG&E's AL.
16. SDG&E's average residential customer numbers used for this AL are not consistent with its 99-2003 Comparative Statistics.
17. The RCS cost SDG&E used to support the level of allowance in this AL is very low compared to SCE's RCS cost and to its estimated fraction of the master-meter discount in D.04-11-033.
18. Applying SCE's estimated fraction of RCS cost in the multi-unit master-metered discounts of SDG&E's Schedules DS and GS results in lower allowances.
19. Rule 15 cites Rule 2 for the "Cost of Service factor".
20. In Rule 2 the components of the "Cost of Service factor" are defined and enumerated but the term "Cost of Service factor" is not used.
21. SDG&E's AL used data from a settlement for the COS factor that yields a different result than flows from existing Rules.
22. SDG&E's total average gas use for residential customers is higher than the usage shown in its Statistical Comparison.
23. SDG&E's proposed ownership charges (percentages) in most cases are higher than comparable figures used in SDG&E's avoided cost discounts for multi-unit master-meter customers.
24. The Energy Division's comments on SDG&E's Form106-44140, Agreement for Extension and Construction of Overhead/Underground Electric and Gas Facilities do not have a bearing on the issues discussed in this resolution.

THEREFORE IT IS ORDERED THAT:

1. The requests of SCE and SDG&E to change the electric and gas line extension allowances and cost of ownership charges in Advice Letter AL 1847-E and 1647-E/1494-G, respectively is approved subject to the following modifications.

2. SCE shall recalculate its allowance by 1) deleting the baseline credit component of .625 cents/kWh; 2) excluding the generation-related administration and general (A&G) costs from the proxy TOU-D-1 rate; and 3) using a COS factor calculated by compounding not multiplying a monthly ownership charge of 1.46%.
3. SCE's and SDG&E's Rules 2, 15, and any other rule referring to a COS factor, should be clarified as to the relationship with the monthly (ownership) charge for added facilities. The correlation needs to be clearly presented.
4. SDG&E shall recalculate its allowances with source inputs from its 2003 Comparative Statistics for the residential customer counts, average residential gas usage and 60% of the Schedule DS and GS master-meter discount for a year as the RCS cost.
5. SCE and SDG&E shall revise and resubmit their ALs per above orders within 30 days.
6. SDG&E shall work with the Energy Division staff to revise Form 106-44140, Agreement for Extension and Construction of Overhead/Underground Electric and Gas Facilities and include it in the revised AL.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on June 16, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director